

## **On employment, wage arrears and social peace that is so hard to keep**

Vol. 6, No. 182, July 17, 2000

As far as the scope and emotion of protest actions are concerned, this year is nothing like the particularly tense 1995-1997 period. Yet, since January 2000 there have been a number of strikes focused almost exclusively on demanding on the government to pay wage arrears.

In February 2000, teachers from 34 schools and one kindergarten of Kherson went on strike, but the protest faded soon following the government's promise to solve the problem. Given the size of the government's total debt to Ukrainian teachers (UAH 5,365 thousand in October 1999-January 2000), the short period and low intensity of the protest only meant that new actions would follow shortly...

Yet, in early May participants of the meeting with Speaker of the parliament Ivan Pliushch with representatives of the government, educational institutions and trade unions remembered that teacher salaries had not been raised since 1996 and announced that the 2000 state budget appropriations for salaries in the education sector totaled UAH 731.4 million and that the arrears would be covered in full by the end of the year. According to Speaker Pliushch, after his consultation with Prime Minister Victor Yushchenko a proposal was made to the government to give teachers, health care professionals and employees of the culture and arts sphere a salary rise.

So far the government has responded to the proposal by approving Resolution # 937 On Formation of the State Budget of Ukraine for 2001, Its Preliminary Indicators and Measures to Prepare Draft Law on the State Budget of Ukraine for 2001 dated June 9, 2000. Among other things, the resolution stipulates that raising salary levels for employees of the budget-funded sphere shall be allowed only through optimization of the network of budget-funded institutions and organizations, and reductions of the number of their employees within the limits of the state budget expenditures (paragraph 23). According to Appendix 4 of the Resolution # 937, the Ministry of Education and Science, by November 1, 2000 the Ministry of Labor and the Ministry of Finance were ordered to study the issue of feasibility of making changes to the organization of the education process in higher educational institutions of the I-II accreditation level and, in this connection, make changes to the order of payment to education specialists of those institutions (paragraph 17). By July 10, 2000, the Ministries were supposed to review, in order to reduce and abolish payments for health care and diagnostic services rendered at health care institutions by some categories of employees of the higher medical educational institutions, medical professional upgrading institutions and medical departments of other higher educational institutions (paragraph 18). By the way, an average Ukrainian medical professional is paid UAH 130 (about US\$ 25) a month, less than half of an average rate in the industry (UAH 281/month). The rates have not been increased for 4 years. Similar challenges are faced by employees of the culture sphere, whose salaries are supposed to be subject to the task of saving budget funds.

In early May 2000, miners' strikes resumed: almost 40 thousand miners of 19 mines of the Donetsk, Luhansk and Volyn regions went on unlimited strike against growing wage arrears and low wages (according to activists of the Free Trade Union of Miners, quoted by the Interfax agency, wages in their industry rank 15 to 17 after wages earned in other industries). According to the State Committee for Statistics, by April 10, 2000, the wage arrears in the mining industry had totaled UAH 747 million. Only eight out of 191 Ukrainian mines are profit-making, while 35 are considered hopelessly loss-making and are to be closed down. The others, as before, keep demanding additional budget subsidies. The efforts to persuade miners to take up some other jobs - for instance, start their own businesses - so far have not convinced but a few.

The miners' strikes lasted till the end of May but failed to resolve the conflict and, of course, did not eliminate its causes. The demand of the Cabinet's resolution # 937 that the Ministry of Fuel and Energy, the Ministry of Economy and the Ministry of Finance presented, within one month, a draft Program for Reforming and Financial Recuperation of Enterprises of the Coal Mining Industry in 2001, equipped with necessary calculations and economic justification of funds to be spent so far has not produced any specific results. In 1997 the Cabinet of Ministers approved the Program of closing down ineffective mines which, among other things stipulated that as many as 43,8 thousand new jobs would have been created in all mining areas by 2000. As President Kuchma publicly announced a few weeks ago, the program was successfully failed. <...> Only 1,4 thousand jobs have been created, or 30 times less than planned. In the Donetsk region, only 306 new jobs have emerged, and 464 new jobs [have been created] in the Luhansk [region]. And practically nothing has been done in this direction in the Volyn, Kirovohrad, and Cherkassy regions. In tune with our old and bad tradition, nobody has been made liable for that obvious failure. For this year, a

new Program has been adopted for reforming and financial recuperation of mining enterprises. For the first time [it] involves the division of funds [allocated for] creation of new jobs between the Ministry of Fuel and Energy and regional state administrations. I want to warn all officials involved in this: do not repeat mistakes of the past years! You are fully and personally responsible for further fates of the people laid off due to closing down of mines, for the support of viability of miners' towns, for ensuring social stability in miners' collectives (Uriadovyi Kurrier, June 1, 2000). Below there are some points on how exactly creation of new jobs is expected to take place. Meanwhile, there are some figures that are worth considering.

All in all, according to the State Committee of Statistics, by April 10, 2000 the wage arrears had totaled UAH 6.5 billion, or 1.4% above the January 2000 level. The worst payment situation persisted in the Donetsk region (UAH 988.6 million), the Luhansk region (UAH 593.6 million) and the Kharkiv region (UAH 450 million). Taken by the industry, the largest payment arrears remained in the coal mining branch.

One month later the total wage arrears were reduced by 0.8% to UAH 6.4 billion. The largest wage arrears remained in the industrial sector (UAH 2.37 billion or - 0.1%) and agriculture (UAH 2.1 billion or - 0.3%). In the sphere of education, it was down to UAH 217 million (-6%), health care - UAH 146 million (-7%), science - UAH 97 million (-5%), social security - UAH 7 million (- 2.8%) (Ukraina Moloda, June 7, 2000). Generally, according to the State Committee for Statistics, in the 1st quarter of 2000 the wage arrears had grown three times more slowly than in the 1st quarters of 1998 and 1999 (Molod Ukrainy, June 30, 2000).

Yet, although the optimistic figures are supposed to indicate substantial improvement of the situation, ordinary readers of central newspapers are not the only ones who may remain cautious about them. Speaking at the 8th congress of the Ukrainian Leagues of Industrialists and Entrepreneurs on May 30, 2000, President Leonid Kuchma announced that even though the production and budget revenues are growing, wage arrears continue to grow too. According to the President, every fourth hryvnya of salary is not paid on time. By early June 8.7 million, or 63% of workers and employees of large and medium enterprises had not been paid on time. The average debt per worker was UAH 739. In the mining industry the average wage arrears increased by 11%, while in the Dnipropetrovsk and Kirovohrad regions the wage arrears to miners jumped by 76% and 52%, respectively. Meanwhile, within three months of 2000, 459 workers were killed at their workplaces due to poor safety conditions. Within the same period of time the State Committee for Labor Safety reported almost 695 thousand cases of violation of labor safety regulations (Uriadovyi Kurrier, June 1, 2000). Hence, working in Ukraine may seem not only as economically senseless, but also dangerous...

One of the saddest points of these statistics is that - unlike in developed market democracies whose examples Ukrainian official like to quote whenever they deem suitable - in this country a worker can hardly rely on suing his/her employer for failure to pay on time. Or rather, lawsuits on such cases are quite common: according to the Ministry of Justice, last year Ukrainian courts made their judgement on 200 thousand - or 25% of the total - lawsuits based on charges against employers who failed to pay wage arrears. However, only a small minority of judgements was actually enforced.

On February 16, 2000, the parliament of Ukraine debated the draft bill On Setting the Size of Minimum Wages for 2000 that introduced the basic monthly wages at UAH 90, to be increased to UAH 118 from the second half of 2000. The draft was sent back for numerous improvements, as well as a bill On Labor Payment, vetoed by the President. The wage arrears and the growing unemployment rate have proved to be so politically useful, that only very careless political groups have not rushed to make good use of an extra chance to appeal to their voters. On May 31, 2000 the parliament's official publication, Holos Ukrainy, published a statement issued by Batkivshchyna, the faction of vice prime minister for the fuel and energy complex Yulia Tymoshenko, stressing that real unemployment rate has struck the catastrophic level - almost 33%, and became a national mischief. The governmental agencies - the Derzhkomstat [i.e., State Committee for Statistics] and the Ministry for Social Policy [and Labor] - obstinately underestimate or even disguise real unemployment data. According to the Derzhkomstat, by January 1, 2000 there only 4.3%, or about 1.2 million of the able-bodied population had been unemployed. The Minister of Social Policy believes that [by the end of] 2000 there will be over 7 million jobless, argued the statement, urging the government and the parliament to take extraordinary measures, for with such a number of the unemployed, their social protection becomes impossible, and a social explosion inevitable. It is hard to object to the proposal, made by authors of the statement - to ensure renaissance of industrial production and provide for the maximum of possible employment of the population by means of creation of the most favorable conditions for development of small and medium business and the services sphere. The only question is how make the wish a reality. Unfortunately, the demand for minimizing profit taxes in that sector of economy, or possibly, introducing taxation vacations and taxation benefits for the amount invested in creation of new jobs will hardly receive enthusiastic response of the State Taxation Administration that has a clear and unequivocally formulated task - to ensure fulfilling the zero-deficit budget.

At some point the situation caught the eye of international organizations. In early June 2000, the Committee for Labor Norms of the International Labor Organization gathered government officials, employers and trade union leaders from over 150 countries to discuss, among other things, respect for labor rights in Ukraine. For the second time in the recent three years the ILO discussed the violation of its Convention # 95 on protection of wages. Representative of the Ukrainian government, Minister of labor and Social Policy, Communist Ivan Sakhan had nothing much to say after the initiator of the hearing, leader of the Federation of Trade Unions of Ukraine Oleksandr Stoyan, MP, announced that the problem of wage arrears in Ukraine had not been resolved and urged the ILO to make the Ukrainian government take radical measures to meet the demands of the Convention, ratified by Ukraine (Demokratychna Ukraina, June 13, 2000).

However, there is little hope for quick improvement, as there are no real economic reasons for it. Partly the situation is acknowledged by the 2000 macroeconomic and budget indicators, provided by the government: the total payroll estimates for workers and employees of all enterprises and institutions of all forms of ownership are UAH 33,6 billion or 22.3% of the GDP forecast, considerably less than the level of 45-65% of the GDP of our close neighbors to the West (Den, July 8, 2000).

Meanwhile, the situation when almost 80% of the population complain about deterioration of their standards of living must stimulate the government for action - or at least for demonstration of its commitment to settling the problem. Therefore, on June 21, 2000 the Cabinet of Ministers issued Resolution No. 1007 that introduced the 2000 Action Plan for Implementation of the 1997-2000 Employment Program and Key Directions of Spending from the State Employment Fund in 2000 . The action plan ordered the Ministry of Labor and Social Policy to report quarterly on the progress in implementing the Program and specifies a number of actions aiming at development of small and medium business. Specifically, the action plan stipulated (1) promoting investment that creates new jobs in mining areas and other economically and demographically depressed regions; (2) providing support for business initiatives for self-employment of the unemployed and job-seekers; (3) assisting development of business centers, business incubators and Internet centers that would provide information and guidance to business starters; and (4) drafting a mechanism for providing financial support to the unemployed who wish to start their own businesses. The action plan also mentioned an experiment for support of small business and self-employment in the Crimea, Dnipropetrovsk, Kyiv, Lviv, Luhansk, Kharkiv, and Khmelnytsky regions, as well as in the cities of Kyiv and Dnipropetrovsk. To ensure the implementation of the plan, the Ministry of Labor and Social Policy was supposed to develop proposals for ensuring efficacy of employment, initiate retraining programs, coordinate college and university training with demand in the labor market, allocate some vacancies for young specialists, etc. The resolution also earmarked the funding available from the State Employment Fund till the end of 2000. Specifically, UAH 370.85 million were expected to be paid as unemployment subsistence, with UAH 44.2 million to be spent on training and retraining of the unemployed, UAH 13.2 million to be used for organizing public works. Yet, only UAH 2.1 million were allocated for creating jobs, providing small business loans to the unemployed and resettlement of families to rural areas from economically depressed regions, primarily mining areas. It is unclear why so little was allocated for this critical category, when the state-owned Oshchadbank fees charged on transaction of unemployment subsidies were estimated as UAH 1.9 million. The amount to be spent on jobs, loans and resettlement programs is a striking contrast with the allocation of UAH 18 million for providing state employment agencies with offices (construction, purchase, full refurbishment) , UAH 20 million for creating and maintaining an electronic information database, UAH 80.2 million for administration costs related to assisting in finding jobs and maintaining the employment service , and UAH 3.2 million for information, advertising and other operational costs. No wonder the figures cause doubt about sincerity of the program's intentions to encourage self-employment and creation of new jobs...

Furthermore, the past few items of expenditures contradict the draft bill on the 2001 state budget that explicitly orders that there should be no more government decisions that result in the increase of budget expenditures and instructs the Ministry of Economy not to consider any drafts of national and branch programs and complex measures that require additional budget funding in 2001 and the following years. The measures designed to save on budget expenditures include limiting new capital construction and reconstruction of administrative buildings, purchase of office cars and refurbishment, except in cases of disastrous condition.

In general, Ukraine's labor market currently looks as follows. By the end of 2000 the proposal of labor is expected to reach 3,207 thousand persons. In January 2000 the number of the officially registered unemployed for whom the issue of employment is being dealt with was 1,204.6 thousand, with as many as 2,002.4 thousand new job-seekers to join the army by the end of the year, including 538.1 thousand made redundant by the shrinking economy; 499.2 thousand driven out of work by unsuitable conditions, including low payments or wage arrears; 137.1 thousand school and college graduates and 828 thousand unidentified others . Meanwhile, the labor demand is not expected to exceed 529.7 thousand. The officially registered unemployment rate is estimated to reach 6.4%.

By the number of the unemployed registered by local job centers, the regions that are the most severely stricken by unemployment include Donetsk (306,600 persons, including 198,300 women and 111,200 young persons under 28), Lviv (241,700 persons, including 136,900 women and 81,400 young persons), Dnipropetrovsk (237,400 persons, including 143,700 women and 76,900 young persons), Zhytomyr (155,400 persons, including 80,900 women and 61,500 young persons), and Chernihiv (111,100 persons, including 58,800 women and 44,700 young persons). Of Ukraine's 3,207,000 registered job seekers, 1,883,000 are women and 1,119,200 are youth under 28. The social and demographic picture of the problem is quite remarkable. The dynamics of unemployment rates also leaves little room for optimism. The official average unemployment rate is likely to increase from 3.7% in 1998 to 6.4%, with the most rapid growth observed in the regions of Zhytomyr (from 7.2% in 1999 to 12.5% in 2000), Lviv (from 7.4% in 1999 to 11.7% in 2000), Rivne (from 7.2% in 1999 to 11% in 2000), Volyn (from 7% in 1999 to 10.2% in 2000), and in Kyiv (from 0.9% in 1999 to 2.7% in 2000.) (Source: Cabinet of Ministers of Ukraine, Appendix 4 to the 2000 Action Plan for Implementation of the 1997-2000 Employment Program and Key Directions of Spending from the State Employment Fund in 2000. )

Yet, the figures do not provide the whole picture of the unemployment problem. According to official data of the State Committee for Statistics, about 60% of Ukrainian enterprises (84% of agrarian firms) are loss-making; therefore, they either pay very low wages or do not pay their workers at all. Hence, there is a constant need to create jobs that would allow personal incomes sufficient to provide for decent standards of living (which, at the most modest estimates, exceeds the average monthly earnings of UAH 213.21 (May 2000) by two or three times). In this context, the creation of 1 million new jobs by 2005, stipulated by the President and the government in their programs, looks at least inadequate. The problem could partly be solved, however, but the creation of about 3 million of small businesses - of course, if the business climate in this country becomes more favorable. It is natural that the government hopes that most of the needed jobs will be created by the private sector. It is not natural, however, that the hopes are not endorsed by support for small business in general and creating incentives for self-employment of the former unemployed in particular.

What are the solutions to the problem? They may include the following steps:

1. Development of private business, based on favorable business climate, and rejection of the state's common practice of putting additional tax pressure on effective enterprises;
  2. Prevention of curbing the opportunities for small businesses and individual entrepreneurs to use simplified methods of accounting and taxation, introduced by the President's deregulation decrees and the law On making Changes to the Decree of the Cabinet of Ministers of Ukraine On Citizens' Income Tax ;
  3. The system of labor payment should be reformed to have a positive impact on increasing the purchasing power and, thus, demand and volumes of sales. A higher proportion of purchasing power in the GDP will stimulate production through increasing demand for goods and services and, thus, contribute to creation of new jobs and to the increase in the number well-off potential consumer of goods and services. While this is true in theory, in Ukrainian reality the process has been interrupted by very high payroll taxes that discourage the business community from creating official-sector jobs and paying realistic salaries and wages without hiding them in the shadow sector ;
  4. Instead of subsidizing loss-making branches and enterprises, the government should encourage industrial restructuring and creation of new jobs for the redundant personnel of the enterprises being restructured.
- Otherwise a purchasing-powerless Ukrainian , described recently by Ye. Merentsov in the Day (July 8, 2000) will remain a key factor of the country's economic crisis.